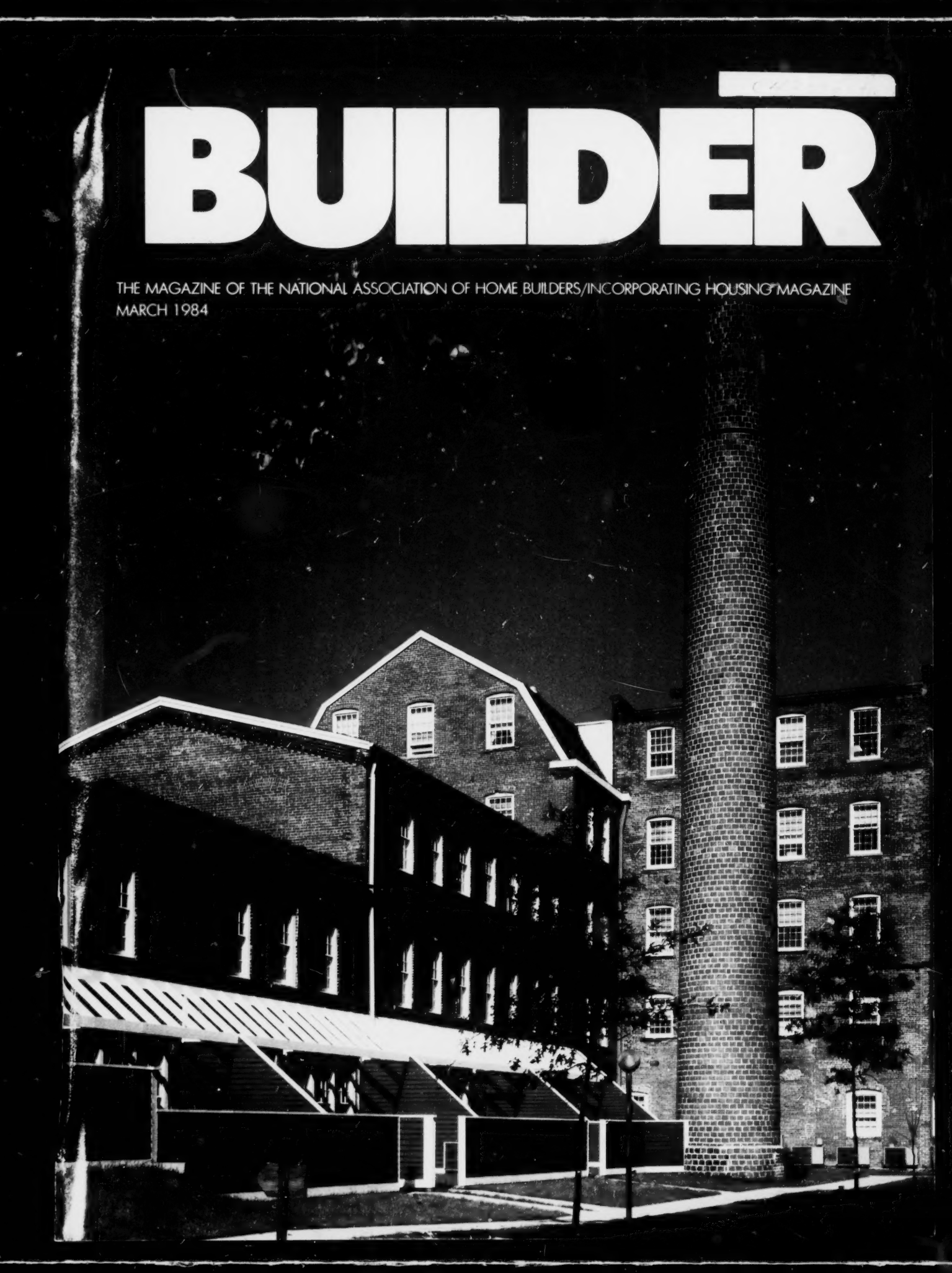
BUILDER

THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS/INCORPORATING HOUSING MAGAZINE
MARCH 1984



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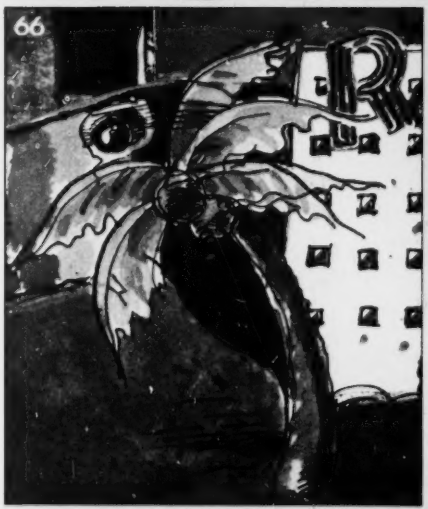

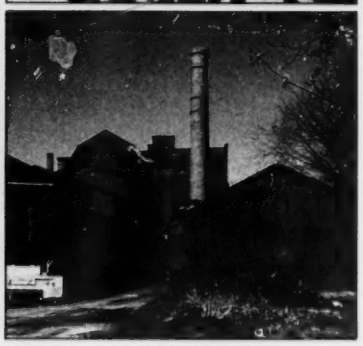

66—WHAT'S UP (and DOWN)
Everybody is optimistic about 1984. But even in the best of times some opportunities stand out. Nine marketing experts rate a builder's chance for success in 10 major market segments.

76—NICKLAUS WINS AGAIN
Recognized as the best golfer in history, Jack Nicklaus now is driven to become the premier developer of first-class golf course communities. Bet on him to succeed.

82—ON THE ROAD AGAIN
For years mobile homes were called trailers. That's no longer true, but the "tin cans on wheels" image has been hard to change. Manufacturers are trying, though, and some are moving toward the middle of the road by building more expensive homes for first-time home buyers.

90—GROUND BREAKERS
Hats off to a Connecticut builder who took the time to understand the investment tax credit for renovating historic properties. Using the credit he converted a derelict 100-year-old hat felting factory to 41 luxury rental apartments.

(Cover: Danbury Mill. Photo: Copyright Jerry LeBlond 1983)

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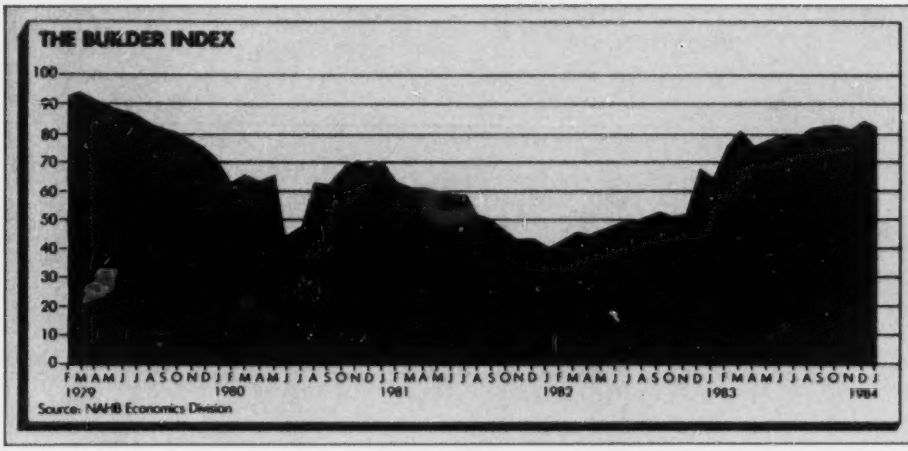
THE BUILDER INDEX
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1979
1980
1981
1982
1983
1984
Source: NAHB Economics Division

The BUILDER Index declined by 1.59 points in January but still was more than 17 points higher than a year ago.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The BUILDER Index is updated monthly.

The BUILDER Index

Michael Sumichrast
NAHB Chief Economist, Washington, D.C.

It's almost impossible to keep track of all the economic statistics that can be used to assess the state of the housing industry. There are interest rates, new home sales, building permits, materials prices, housing prices and, of course, housing starts. In addition there are forecasts from the government as well as private firms. Different statistics are issued at different times—always it seems too late to make a difference and then subject to revision—and forecasts seem to change daily.

Wouldn't it be nice to have a single timely, reliable statistic to measure housing activity? Yes, it would, which is why NAHB's Economics Division has developed, exclusively for BUILDER, the BUILDER Index. Beginning in this issue of the magazine the index will appear each month in the "Outlook" section.

What any index does is measure change in wages or employment, for example, from an arbitrary standard representing the status at an earlier time. (The Consumer Price Index—CPI—that measures changes in prices against a standard of the late 1960s is probably the best-known index.)

The BUILDER Index was designed to measure changes in future housing activity. In other words it will indicate whether housing activity will be up or down during the next six months. Just as the CPI doesn't indicate exactly what a certain product will cost but instead that products in general will cost more or less, the BUILDER Index shouldn't be used to project housing starts. Instead it should be used to determine whether housing activity will increase or decrease, over the short term, from current levels.

The higher the index number, the better for housing. In January the index stood at 82.45, or at about the same level it's held since last summer. A reading that high suggests relatively strong future housing activity. (The BUILDER Index is based with July 1978 equaling 100. At that time the index correctly forecast a climb in housing starts to a peak of about 1.9 million units in the summer of 1979. Moving as it should, about six months ahead of housing starts, the index started to decline in early 1979, continued to decline through mid-1980, increased for a short period, declined again through the spring of 1982—reaching a low point of 40.92 in January 1982—then increased again before leveling off last summer.)

The index was developed with the assistance of the Bureau of Economic Analysis in the Department of Commerce, the record-keeper for the federal government. It represents a composite of seven important housing indicators:

- building permits;
- Government National Mortgage Association (Ginnie Mae) yields;
- lumber and plywood prices;
- the Producer Price Index for construction materials;
- builders' expectations for new home sales;
- buyer traffic through housing subdivisions; and
- the confidence index of home buying.

All these indicators were seasonally adjusted and tested for correlation with housing starts. Standard statistical procedures were used to select, analyze and weight the indicators.

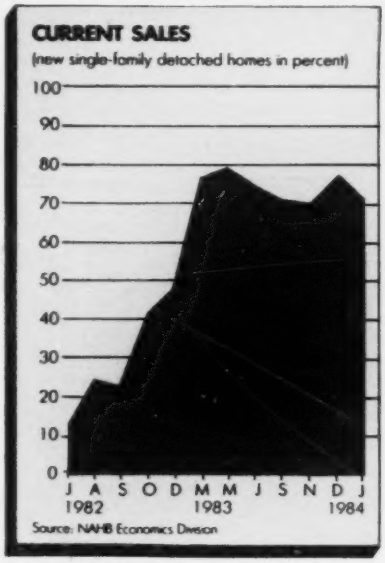
As with any new index this one will have to be fine-tuned over the next several months. But already the BUILDER Index agrees with our own surveys of builders' expectations as well as with our housing starts forecasts.

The surveys show builders think sales will remain strong but will not increase dramatically during the next six months. Our forecast calls for starts to exceed last year's 1.699 million units by about 100,000 units; starts should peak in the second quarter of this year, which is in line with the index.

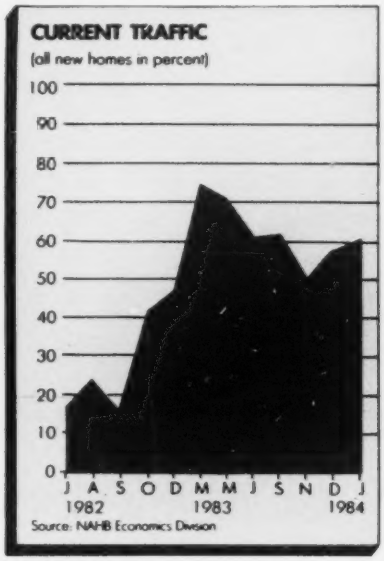
see page 15

OUTLOOK

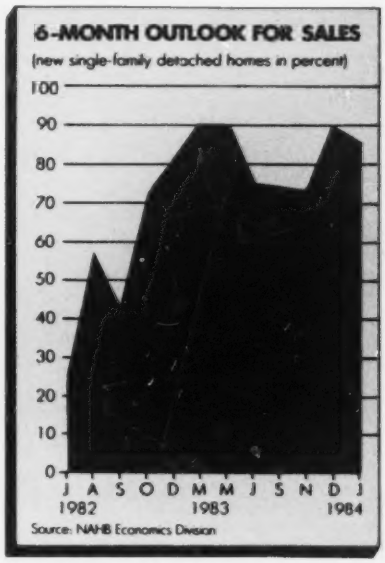
PERFORMANCE POLL: a periodic survey of builders



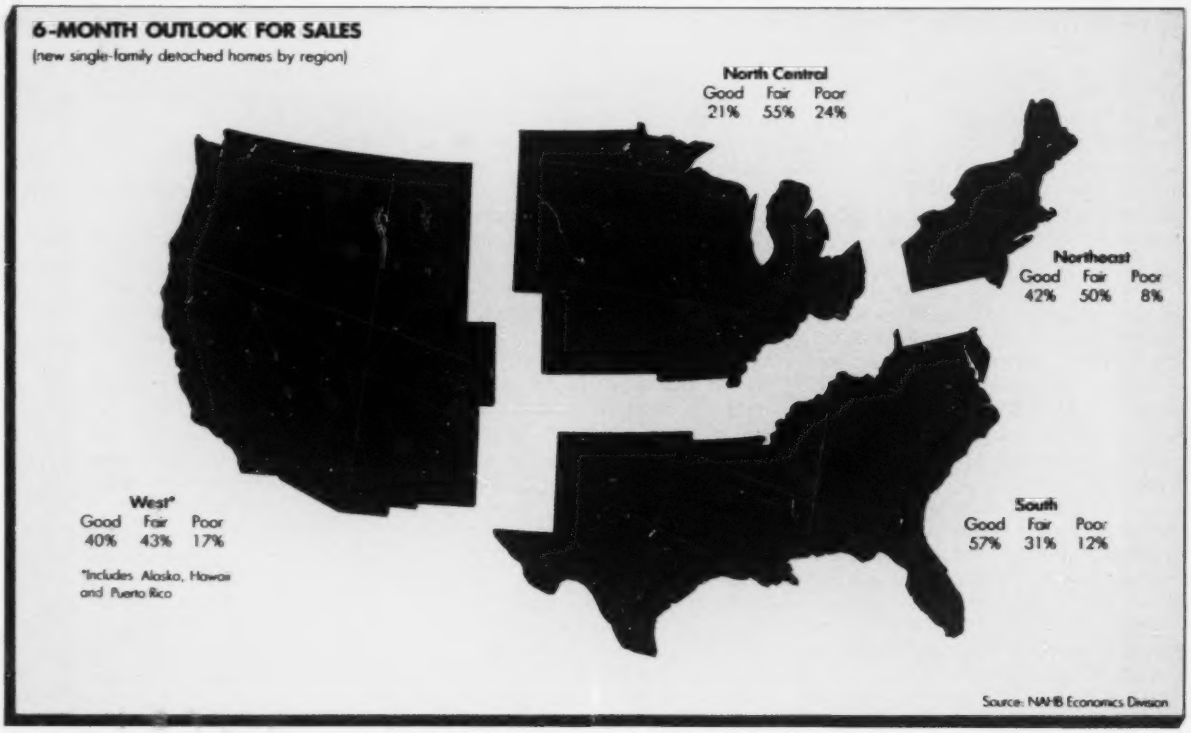
Sales activity dropped a bit, but for 7 of every 10 builders sales remained strong.



For the third month in a row home buyer traffic improved; some 60% of builders reported model home traffic was strong.



The percentage of builders expecting strong sales declined slightly, but at 85% it's clear that optimism still is widespread.



Builders in the Northeast have the most positive 6-month outlook, followed closely by those in the South.

OUTLOOK

NOTES

SEARS MOVES INTO MORTGAGES
Sears Mortgage Securities Corp., a subsidiary of Sears, Roebuck and Co., began issuing commitments in January to buy 15-year and 30-year, fixed-rate mortgages. Individual loans can be up to $500,000. Sears Mortgage was formed last fall from parts of PMI Mortgage Corp. Also owned by Sears, PMI bought mortgages and packaged them into securities—but not on a daily basis as the new firm does. Charles Reed, president of Sears Mortgage, couldn't say when his firm would issue its first securities, but added that they will be marketed through Dean Witter Financial Group, another Sears company.

RESALES IMPROVE
Resales improved substantially last year but not nearly as much as new home sales did. Existing single-family sales climbed 37% to 2.72 million, reported the National Association of Realtors, compared with a 52% spurt in new single-family sales to 625,000. December resales rose 8.5% from the previous month to an annual rate of 2.82 million.

BONDS FOR SMALLER BUILDERS
HOMAC (Home Mortgage Access Corp.) sold its first issue of builder bonds in mid-January. The $18 million issue is collateralized by Ginnie Mae securities. Seven builders participated in the AAA-rated bond issue which was sold through two HOMAC subsidiaries, HOMAC Government Financial and HOMAC Government Financial West. "This represents a major step for small and medium-sized builders," said Robert Larson, HOMAC president. "Now those companies can have access to this advantageous financing technique which many bigger firms have been using."

STRONG DECEMBER TRACED TO ARMs
December usually is a slow month for mortgage lending, but December 1983 saw mortgage lending at savings institutions soar to $14.3 billion —a record for the month, reported the U.S. League of Savings Institutions. The year-end pace pushed total 1983 mortgage lending at FSLIC-insured institutions to a record $137 billion, far above the preliminary estimate of $125 billion. The previous record was $108 billion in 1978. The U.S. League attributed strong December lending to the increased use of adjustable rate mortgages and to robust housing activity in the Sunbelt. In fact, an astounding 65% of the mortgages made by savings institutions during the fourth quarter of 1983 were ARMs. The average ARM rate was 11.75% versus 13.49% for fixed-rate loans, or an average differential of 1.74 percentage points.

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The forecast further predicts starts will increase in the Northeast and North Central regions and will decrease in the South and West. In spite of the forecasted starts decline, the South, with 868,000 projected starts, will be the biggest market, followed by the West (357,000 units), the North Central region (273,000 units) and the Northeast (201,000 units).

Our builder surveys indicate that sales are strongest for units priced less than $100,000. For further proof that the entry-level market is where the action is, consider data collected by the Home Owners Warranty Corporation (HOW), a firm that insures new home buyers against major defects in their new houses. HOW records indicate that 47 percent of the single-family houses sold last year with HOW insurance were bought by first-time buyers.

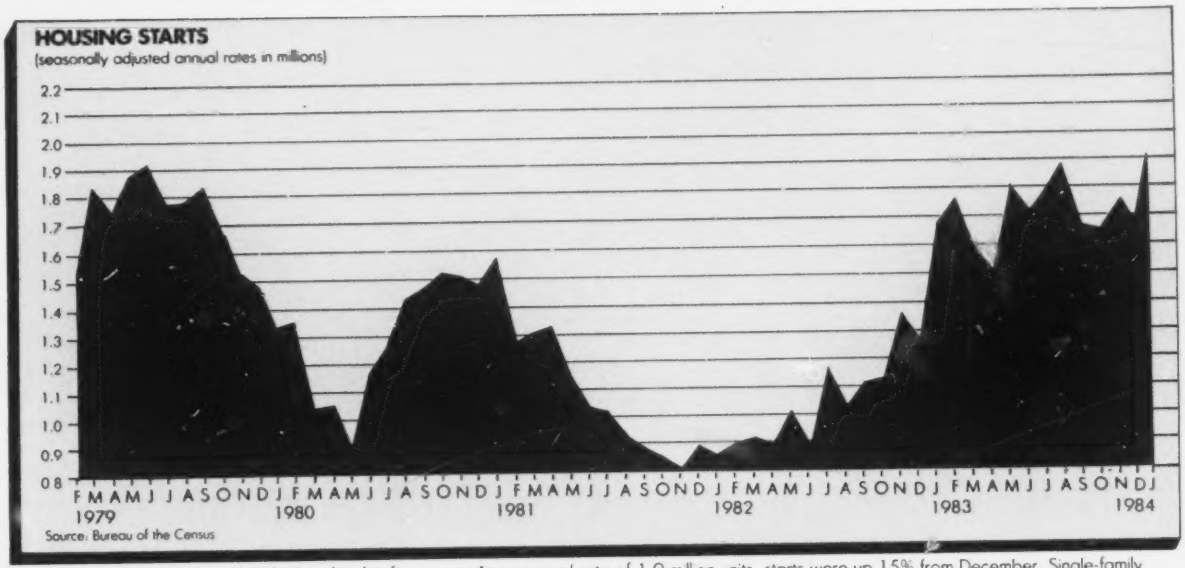
Statistics like those from HOW are revealing and important. The BUILDER Index won't and can't replace them, but it will be a useful tool for anyone trying to figure out which way housing is headed.

COMPONENTS OF THE BUILDER INDEX

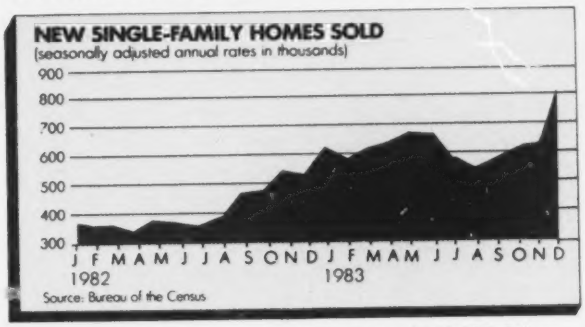
Component	Source	How often collected	How measured
Building permits New private housing units authorized by 16,000 local building permits	Bureau of the Census	Monthly	Number of housing units
Ginnie Mae yield Based on mortgage auctions; 30, 60 and 90-day delivery	Government National Mortgage Association	Weekly	Interest rate
Lumber prices Composite of framing lumber and plywood	Random lengths	Weekly	Index (1967=100)
Producer Price Index Prices of 21 building materials	Bureau of Labor Statistics	Monthly	Index (1967=100)
Sales expectations Builders' rating of sales of new homes for present time and for next six months	NAHB Economics Division survey	Monthly	Percent distribution
Subdivision traffic Based on builders' rating of number of prospective buyers looking at new homes in subdivisions	NAHB Economics Division survey	Monthly	Percent distribution
Confidence index Percent of households that plan to buy new homes within six months	Conference Board survey	Monthly	Percent

Source: NAHB Economics Division

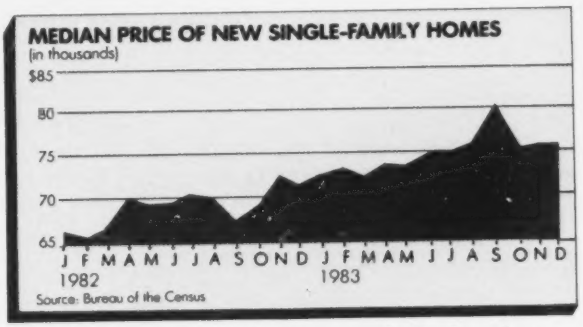
OUTLOOK



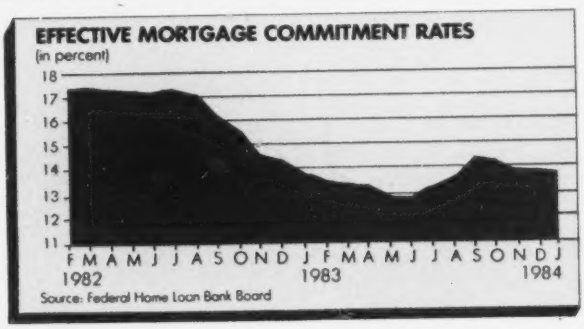
Starts jumped in January to their highest level in five years. At an annual rate of 1.9 million units, starts were up 15% from December. Single-family starts accounted for most of the increase; they surged 23% to 1.24 million.



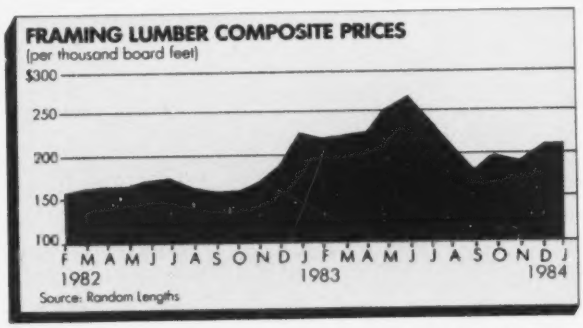
Sales jumped 28% in December to an annual rate of 808,000. Sales were up 53% from December 1982. Strong activity in the South sparked the rise.


MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES
(in thousands)
$85
80
75
70
65
J F M A M J J A S O N D J F M A M J J A S O N D
1982
1983
Source: Bureau of the Census

The median sales price of new houses rose only $100 in December to $75,900. But that's nearly 6% higher than a year earlier.



Mortgage rates receded only slightly in January. Long-term, fixed rates slipped 4 basis points to 13.84%; uncapped adjustable rates dipped 3 basis points to 12.35%.



Lumber prices rose 2% in January to $213 per thousand board feet. The price was down 7% from a year earlier.

RATES

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ment rate goes down too.

Conversion fees will vary depending on interest rates and commitment term.

Commitments can be purchased on a house-by-house basis, compared with Fannie Mae's minimum $1 million commitment amount, and individual mortgages can be as high as $500,000.

HOMAC's commitment can be used to finance 15 and 30-year, fixed-rate mortgages, graduated payment mortgages, and short and long-term buy-downs. ARMs are expected to be added later. The program will be offered initially in Florida and parts of California, Arizona, Colorado, Georgia and Texas. Other areas will be added as lenders are approved.

Residential Funding Corp. also offers a new commitment with interest rate protection. With the optional delivery three, six or nine-month commitments, builders can cap their interest rate risk at 50, 100 or 150 basis points over the delivery commitment rate quoted when the commitment is ordered.

Loans are converted at the capped rate or the rate at the time of conversion, whichever is less. The commitment can be used to finance a variety of mortgage types and individual loans of as much as $500,000.

Fees vary with the length of the commitment and the amount of rate protection. In late January, for example, the least expensive commitment fee was ½ percent for a three-month commitment with a 150-basis-point rate cap. The most expensive fee was 2½ percent for a nine-month commitment with a 50-basis-point rate cap.

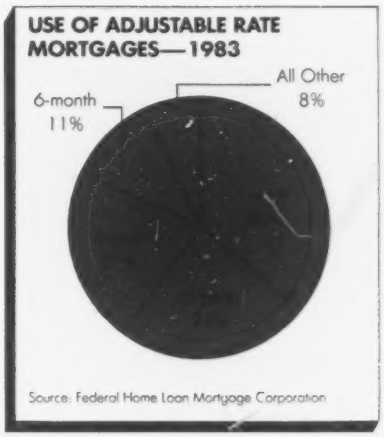
Carol Anderson

FINANCE

ARMs MAKE GAINS

Adjustable rate mortgages have come a long way in the last three years, but they still have a way to go, according to a recent survey by the Federal Home Loan Mortgage Corporation (Freddie Mac).

More buyers are taking ARMs because lenders have started pricing them competitively with fixed-rate loans, often offering substantial initial rate discounts.



However, the profusion of ARM instruments and prices still confuses home buyers. And lenders worry that many buyers don't understand ARMs and that those who take discounted ARMs may suffer when the first adjustment period rolls around.

According to the nationwide study conducted last fall, 82 percent of the 750 lenders surveyed offered ARMs. What's more, ARMs accounted for 44 percent of all mortgage originations made by those lenders during the first half of last year.

"That's up from nearly zero three years ago," said Kent Colton, executive vice president of the mortgage corporation. "While ARMs may never replace traditional fixed-rate loans," Colton said, "It's abundantly clear that they have achieved widespread acceptance in the marketplace."

Survey respondents attributed the surge in ARM business to favorable pricing—a healthy spread between ARM rates and fixed rates and to discounted initial ARM rates. The assumability of most ARMs (66 percent) as well as the availability of rate and payment caps also have made the loans more palatable to buyers.

Some survey results:

- ARM programs were rated successful by 54 percent of the lenders; another 36 percent said they were somewhat successful.
- The one-year ARM was the most widely used, followed by the five-year and three-year ARMs (see chart).
- The most common index was Treasury rates.
- Some 24 percent of the lenders (30 percent of lenders with successful ARM programs) offered initial ARM rate discounts. In fact, initial rates varied from 9.25 percent to 13.75 percent, or 4.5 points, for uncapped one-year ARMs tied to the Treasury index.
- The spread between initial ARM rates and fixed-rate mortgages averaged 2 to 3 points for one-year Treasury-indexed ARMs. The spread was narrower for longer ARMs, ranging from 0.6 to 1 percentage point for five-year, Treasury-indexed ARMs.
- Surprisingly, capped ARMs were priced lower than uncapped ARMs.
- A majority of ARM lenders offer either a rate or payment cap.
- Least likely to offer ARMs are commercial banks, small S&Ls and lenders in the Northeast, but the percentage among these groups still is quite high (66 percent).
- ARMs vary considerably by region. Rate caps are most likely to be offered in the West, least likely in the Southeast. And lenders in the West and Northeast are most likely to offer initial rate discounts.
- Most ARM buyers are younger, first-time home buyers or older, highly educated, affluent buyers who can afford the risk.

While encouraging, the survey results indicate a need for greater standardization among ARM products and more education for buyers, Realtors, builders and lenders, Colton concluded.

ECONOMY

HOUSING REBOUNDED IN 1983, FIGURES SHOW

Now that the numbers are in, there's no doubt about it: 1983 was a very good year for housing, the best since 1979.

Preliminary figures show there were 1.7 million housing starts last year, up 60 percent from disastrous 1982, and close to the 1.75 million units started in 1979.

see HOUSING page 56